

**PUBLIC DISCLOSURE**

**JANUARY 25, 2011**

**COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION**

**CAMBRIDGE TRUST COMPANY**

**Cert. # 08152**

**1336 MASSACHUSETTS AVENUE  
CAMBRIDGE, MASSACHUSETTS 02138**

**Division of Banks**

**1000 Washington Street, 10<sup>th</sup> Floor**

**Boston, MA 02118**

**Federal Deposit Insurance Corporation**

**350 Fifth Avenue, Suite 1200**

**New York, New York 10118**

**NOTE: This document is an evaluation of the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operations of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the Federal Deposit Insurance Corporation or the Division of Banks concerning the safety and soundness of this financial institution.**

## TABLE OF CONTENTS

I.	General Information.....	1
II.	Institution Rating.....	2
III.	Institution	
	a. Scope of Evaluation .....	4
	b. Performance Context .....	6
	c. Conclusions with Respect to Performance Tests.....	10
IV.	Appendices	
	a. Appendix A - Fair Lending (Division of Banks).....	A-1
	b. Appendix B - General Definitions.....	A-3
	c. Appendix C - Investment Definitions.....	A-6
	d. Appendix D – Standard PE Language.....	A-7

## GENERAL INFORMATION

The Community Reinvestment Act (“CRA”) requires the Massachusetts Division of Banks (“Division”) and the Federal Deposit Insurance Corporation (“FDIC”) to use their authority when examining financial institutions subject to their supervision, to assess the institution's record of meeting the needs of its entire assessment area, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agencies must prepare a written evaluation of the institution's record of meeting the credit needs of its assessment area.

This document is an evaluation of the CRA performance of **Cambridge Trust Company (or the “Bank”)** prepared by the Division and the FDIC, the institution's supervisory agencies, as of **January 25, 2011**. These agencies evaluate the Bank’s performance in the assessment area, as it is defined by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all of the institution’s branches. The Division rates the CRA performance of an institution consistent with the provisions set forth in Massachusetts Regulation 209 CMR 46.00. The FDIC rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345 of the FDIC’s Rules and Regulations.

## INSTITUTION RATING

*INSTITUTION'S CRA RATING:* This institution is rated **SATISFACTORY**

The Lending Test is rated: Satisfactory

The Community Development Test is rated: Satisfactory

An institution in this group has an adequate record of helping to meet the credit needs of its assessment area, including low- and moderate-income neighborhoods, in a manner consistent with its resources and capabilities.

The assigned rating is based on the results of two performance tests: the Lending Test and the Community Development Test. The Bank's performance under each of these two tests is summarized below:

### **Lending Test:**

- The average loan-to-deposit ("LTD") ratio is considered less than reasonable at 59.0 percent (considering seasonal variation and taking into account lending related activities) given the institution's size, financial condition, and assessment area credit needs. However, the Bank experienced unprecedented growth in deposits, which outpaced the lending activity. The LTD ratio has historically been lower than similarly-situated Banks; management attributes this to a focus on maintaining liquidity.
- A majority of the Bank's home mortgage and small business loans were made in the Bank's assessment area. Home mortgage and small business loans made within the assessment area represented a combined 61.0 percent by number.
- Overall, the distribution of borrowers reflects, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate-income) and business customers of different sizes.
- Overall, the geographic distribution of home mortgage and small business loans reflects a reasonable dispersion throughout the Bank's assessment area. The geographic distribution of home mortgage loans reflects excellent dispersion throughout the Bank's assessment area. Although, isolated "lending gaps" were evident in certain low- and moderate-income census tracts where no lending activity occurred. The "lending gaps" were generally mitigated by, and attributable to, a lack of lending opportunities.
- There were no CRA-related complaints received during the examination period. However, the Bank has adequate procedures in place should it receive such complaints.

### **Community Development Test:**

- The Bank originated 27 qualified community development loans since the previous examination, totaling \$11.6 million. The total amount of credit drawn from these loans and lines of credit was \$11.8 million.

- Qualified investments amounted to \$684,937 and consisted of investments made prior to the last CRA evaluation. In terms of donations, 53.6 percent of contributions made by the institution, or \$428,655, were considered CRA-qualified.
- The Bank is very active in its community through Board of Director involvement, seminar coordination, and participation in programs that benefit low- and moderate-income consumers.

## **SCOPE OF THE EVALUATION**

This evaluation was conducted jointly by the Division and the FDIC. Intermediate Small Institution (ISI) evaluation procedures were utilized to evaluate the Bank's performance. These include the Lending Test and the Community Development Test.

The Lending Test focused on the origination of home mortgage and small business loans. These products represent the Bank's primary lending focus, as noted from a review of the Bank's most recent Report of Condition and Income ("Call Report"), dated December 31, 2010. The Call Report indicated, as of that date, that residential real estate lending comprised 66.2 percent of the Bank's loan portfolio, the majority of which were secured by 1-4 family properties. Commercial loans secured by nonfarm nonresidential properties represented 24.6 percent of the portfolio. The evaluation assigned greater weight to the analysis of home mortgage loans, based on the volume of home mortgage versus small business loans, originated over the review period.

Home mortgages included those loans originated by the Bank in 2008 and 2009, as reported on the Bank's Loan Application Register ("LAR"), maintained pursuant to the Home Mortgage Disclosure Act ("HMDA"). Also, similar data through September 30, 2010 was considered. The Bank's home mortgage lending performance in 2008 and 2009 was compared to aggregate market data for the same years. Aggregate market data includes lending information from all HMDA reporting lenders that originated at least 1 home mortgage loan in the Bank's assessment area. The partial year 2010 data is referenced primarily within the narrative portions to identify trends.

Small business loans were also reviewed during this evaluation, which included commercial real estate loans and commercial and industrial loans originated in 2008, 2009, and through September 30, 2010, with original balances of \$1 million or less. As an ISI, the Bank was not required to collect and report small business loans during the review period; however, the Bank collected small business loan data in a format that allowed analysis of all applicable loans and precluded sampling. As the Bank did not formally report its small business loans, comparing the Bank's small business lending activity to the aggregate data was not appropriate. Instead, the Bank's small business lending performance was compared to pertinent 2008, 2009, and 2010 demographic information.

Consumer lending was excluded from this analysis since it accounts for a minor portion of the Bank's overall lending activity. Furthermore, the Bank did not make any small farm loans during the evaluation period.

Although both the number and dollar volume of the Bank's home mortgage and small business loans were reviewed, the number of originations was weighed more heavily than the dollar volume. This is because the number of loans is less likely to have been influenced by factors such as business size, applicant income level, or varying real estate values within the Bank's assessment area. If dollar volume was emphasized, higher income borrowers or geographic areas would generally appear to receive a larger percentage of loans simply because each loan is likely to be a larger dollar amount. The 2008 and 2009 lending data is presented in table format followed by brief narrative commentary.

The Community Development Test includes an analysis of the following criteria: (1) the number and dollar amount of community development loans; (2) the number and dollar amount of qualified investments; (3) the extent to which the Bank provides community development services; and (4) the Bank's responsiveness through such activities in meeting community development lending, investment, and service needs. The Community Development Test includes all community development activities in which the Bank was involved from January 11, 2008, the date of the prior evaluation, to January 25, 2011.

Unless otherwise noted, demographic data referenced throughout the evaluation was obtained from the 2000 United States (U.S.) Census. Financial data about the Bank was obtained from the December 31, 2010 Call Report

## PERFORMANCE CONTEXT

### Description of Institution

Cambridge Trust Company is a community-based institution headquartered at 1336 Massachusetts Avenue in Cambridge, Massachusetts. The Bank is a wholly-owned subsidiary of Cambridge Bancorp, a one-Bank holding company. As of December 31, 2010, the Bank's total assets were \$1.1 billion, of which 46.0 percent is represented by securities. Total assets grew 33.1 percent since the last CRA evaluation, whereas total loans increased by 35.7 percent and total deposits by 42.5 percent during the same timeframe.

A review of the distribution of loans revealed that the origination of residential loans represents approximately 66.0 percent of all lending activity. Commercial loans, including commercial and industrial as well as commercial real estate loans, represent 31.5 percent of the total loan portfolio. Table 1 illustrates the institution's loan portfolio composition as of December 31, 2010.

<b>Table 1 - Loan Distribution as of December 31, 2010</b>		
	<b>Dollar Amount ("000s)</b>	<b>Percent of Total Loans (%)</b>
Construction and Land Development	2,719	0.5
1-4 Family Residential	351,044	61.7
Multifamily Residential	22,735	4.0
Commercial	139,844	24.6
<b>Total Real Estate Loans</b>	<b>516,342</b>	<b>90.8</b>
Commercial and Industrial	39,230	6.9
Consumer	8,271	1.5
All Other Loans (Excluding Consumer)	4,725	0.8
<b>Total Loans</b>	<b>568,568</b>	<b>100.0</b>

*Source: Report of Condition*

Since the previous examination, the Bank opened 2 branches and closed none. The Belmont branch was opened in December of 2008 in a middle-income Census tract. The Lexington office was opened in January of 2010 in an upper-income census tract. The Bank operates 11 full service branches, including 5 locations in Cambridge and 1 each in Belmont, Boston (Beacon Hill), Concord, Lexington, Lincoln, and Weston. The majority of the Bank's branches are located in upper-income Census tracts; 3 branches (Belmont and two in Cambridge) are located in middle-income Census tracts, and the 2 in Cambridge (Kendall Square and University Park) are located in moderate-income Census tracts. Additionally, the Bank operates 2 stand-alone automated teller machines (ATMs) in Cambridge. The Bank also has 2 wealth management offices in Concord and Exeter, New Hampshire.

The hours and services offered at each full service branch are typical, with some offering extended evening and Saturday hours. The Bank is a member of the SUM Program, which allows customers to use bank cards "surcharge free" at more than 2,800 SUM designated ATMs. Also, for any terminals displaying the NYCE®, Cirrus®, MasterCard® or Maestro® Logos, Bank customers may use their ATM and debit cards.



The Bank offers full lines of personal and business banking products, including lending, deposit, and wealth management services. On the personal banking products side, the Bank offers checking and savings accounts, residential mortgages, home equity loans, credit cards, personal loans, individual retirement accounts, and certificates of deposit, as well as online banking that offers bill payment services. For business customers, the Bank offers a full array of products, including cash management services, remote deposit capture, secure vault payments, checking and savings accounts, and commercial loans. Within the Bank's wealth management area, services offered include investment management and fiduciary and estate planning.

According to the 2010 Annual Report, the Bank's mission is "to maintain a level of growth and earnings that will yield a superior return to Stockholders while at the same time retain its position as a responsible, active and socially sensitive member of its communities."

The previous CRA evaluation was conducted jointly by the FDIC and the Division as of January 11, 2008. An overall CRA rating of "Satisfactory" was assigned.

There are no apparent financial or legal impediments that would limit the Bank's ability to help meet the credit needs of its assessment area. Based upon the Bank's asset size, product offerings, and branch network, its ability to help meet local credit needs remains satisfactory.

### **Description of Assessment Area**

The CRA requires financial institutions to define an assessment area within which its CRA performance will be evaluated. The evaluation of the Bank's performance is based upon activity within the defined assessment area. The Bank has defined the municipalities of Cambridge, Concord, Weston, Arlington, Belmont, Boston (restricted to select Allston, Back Bay and Beacon Hill Census tracts), Lincoln, Newton, Somerville (select tracts), Watertown, and Wayland as its assessment area. The Boston Census tracts are located in Suffolk County, within the Boston-Quincy, Massachusetts Metropolitan Division (MA-MD). All other municipalities are located in Middlesex County, which is part of the Cambridge-Newton-Framingham MA-MD. The assessment area, as currently defined, meets the technical requirements of the CRA regulation since it (1) consists of one or more political subdivisions; (2) includes the geographies where the Bank has its main office, branches, and deposit-taking ATMs, as well as the surrounding geographies in which the Bank originated a substantial portion of its loans; (3) consists of whole census tracts; (4) does not extend substantially beyond state borders; (5) does not reflect illegal discrimination; and (6) does not arbitrarily exclude low and moderate income areas.

The assessment area changed as of September 1, 2010: the Bank added Census tracts in Lexington and Waltham following a branch opening in Lexington, and excluded the Allston Census tract following the conversion of a deposit taking ATM to a cash dispenser only. For the purposes of this evaluation, the Bank's assessment area before September 2010 was utilized in the analysis.

To assess the Bank's performance, consideration was given to assessment area demographics highlighted in Table 2.

<b>Table 2 - Demographic Information</b>					
<b>Demographic Characteristics</b>	<b>#</b>	<b>Low % of #</b>	<b>Moderate % of #</b>	<b>Middle % of #</b>	<b>Upper % of #</b>
Geographies (Census Tracts)	89	3.4	20.2	36.0	40.4
Population by Geography	387,236	2.7	19.9	34.3	43.1
Owner-Occupied Housing by Geography	81,422	0.5	10.6	33.7	55.2
Family Distribution by Income Level	85,577	1.6	16.9	34.5	47.0
Distribution of Low- and Moderate-Income Families throughout AA Geographies	28,174	3.8	30.5	38.7	27.0
Median Family Income		\$93,470	Median Housing Value		\$370,746
HUD Adjusted Median Family Income for 2009		\$96,358	Unemployment Rate		2.7
Households Below Poverty Level		7.7	(2000 Census)		

*Source: 2000 US Census and 2009 HUD updated MFI.*

### ***Geographies***

The assessment area is comprised of 89 Census tracts, of which 3 (3.4 percent) are defined as low-income; 18 (20.2 percent) as moderate-income; 32 (35.9 percent) as middle-income; and 36 (40.5 percent) as upper-income.

### ***Population***

Based on 2000 U.S. Census data, the total population of the assessment area is 387,236 individuals. Of these individuals, 2.7 percent reside in low-income tracts, 19.9 percent in moderate-income tracts, 34.3 percent in middle-income census tracts, and 43.1 percent in upper-income tracts. Households total 160,252, of which 20.8 percent are low-income; 13.7 percent moderate-income; 16.1 percent middle-income; and 49.4 percent upper income.

### ***Family Distribution***

Providing further insight into the demographic composition of the assessment area is the number of families at each income level. According to the 2000 U.S. Census data, of the 85,577 families in the assessment area, 18.0 percent are low-income, 14.9 percent moderate income, 18.5 percent middle income, and 48.6 percent upper income. Additionally, 4.2 percent of the assessment area families are below the poverty level. The HUD adjusted Median Family Income (MFI) for the assessment area was \$96,358 in 2009. The Department of Housing and Urban Development (HUD) publishes annual estimates of median family income that are adjusted for inflation and other economic events.

### ***Housing***

Housing units within the assessment area total 166,209, of which 81,422, or 49.0 percent, are owner-occupied, and 78,810, or 47.4 percent, are rental units. Of the owner-occupied units within the assessment area, 0.5 percent are located in low-income Census tracts, 10.6 percent in moderate-income Census tracts, 33.7 percent in middle-income tracts, and 55.2 percent in upper-income tracts. A total of 3.6 percent of the units are vacant. The low number of owner-occupied housing units in the assessment area's low-income tracts presumably limits the Bank's ability to make home mortgages in these areas.

Table 2 also displays the median housing value in the assessment area according to 2000 U.S. Census data. More recent data obtained from the *Warren Group* indicated that the 2008, 2009, and 2010 median housing values in the assessment area ranged from a low of \$361,600 to a high of \$1,200,000. Prices generally fell from 2008 to 2009, and rebounded slightly in 2010, with an average median sales price of \$589,083 in 2008, \$569,123 in 2009, and \$584,493 in 2010.

### ***Unemployment***

According to the U.S. Department of Labor, the projected December 2010 unemployment rate for the State of Massachusetts was 8.0 percent. Projected as of December 2010, the unemployment rate in Middlesex County was 6.4 percent and 7.5 percent in the Greater Boston area. The average unemployment rate of all municipalities included in the assessment area was 5.4 percent, which suggests a relatively healthy assessment area in terms of employment.

### ***Business Data***

Numerous businesses operate throughout the assessment area, with the highest concentration in the middle-income census tracts. According to 2009 business demographic data published by Dunn and Bradstreet, the area has 42,366 businesses in operation, 74.6 percent of which are known to have gross annual revenues under \$1 million. The highest proportion of these business establishments is engaged in the service industry. In terms of employees, approximately 67.3 percent of the area's businesses employ four or fewer people.

### ***Competition***

The Bank operates in a highly competitive market area in terms of financial services, competing for loans with many commercial banks, savings banks, credit unions, and mortgage brokers that operate in the area. In 2009, 436 lenders reported a total of 31,909 residential mortgage loans within the Bank's assessment area. Among the more prominent financial institutions competing with the Bank for such loans are Bank of America, CitiBank, JP Morgan Chase, and Wells Fargo. The Bank considers these, as well as local banks, such as East Cambridge Savings Bank, Belmont Savings Bank, and Watertown Savings Bank as its primary competition. The Bank also faces strong competition for small business loans. In 2009, 94 lenders reported a total of 39,266 small business loans within the Suffolk and Middlesex counties. Excluding credit card banks, the Bank competes for small business loans with institutions such as Middlesex Savings Bank, Wells Fargo Bank, TD Bank, and Bank of America.

### ***Community Contact***

A community contact was conducted with a government housing agency in conjunction with this CRA evaluation. The individual was generally satisfied with area financial institutions' involvement within the community, but did suggest more support for affordable housing by creating incentives for private development of such dwellings. The individual also noted the need for more flexible lending guidelines (especially for guaranteed loans on the secondary market) designed specifically to meet the needs of low-income families. A recently conducted community contact also stressed the need for affordable housing, noting the very high cost of single-family homes.

## CONCLUSIONS WITH RESPECT TO PERFORMANCE TESTS

### LENDING TEST

The Lending Test considers the institution's performance pursuant to the following criteria: loan-to-deposit (LTD) ratio; assessment area concentration; lending to borrowers of different incomes (borrower profile) and businesses of different sizes; geographic distribution of loans; and the Bank's record of taking action in response to CRA complaints. Overall, the Bank's performance under the Lending Test is considered 'Satisfactory.'

#### Loan to Deposit (LTD) Analysis

This performance criterion evaluates the proportion of the Bank's deposit base that is reinvested in the form of loans. The analysis was performed using Federal Financial Institutions Examination Council (FFIEC) quarterly call report data for the period ending March 31, 2008 through December 31, 2010.

The Bank's average LTD ratio for the period under review was calculated at 58.8 percent and does not meet the standards for satisfactory performance for this criterion. Over the 12 quarters since the previous evaluation, the LTD ratio remained fairly stable, ranging from a high of 60.8 in September 2008 to a low of 56.2 percent in December 2010.

It was further noted that deposits increased by 42.5 percent, which outperformed the growth of loans at 35.8 percent. The average LTD ratio was also compared to similarly-situated institutions to assist in forming conclusions about the appropriateness of the Bank's LTD. As displayed in Table 3, the Bank's LTD ratio is lower than that of similarly-situated institutions. Management, placing a high value on liquidity, emphasized that the Bank experienced unprecedented growth in deposits, thereby exceeding loan growth. Management attributed this deposit growth to customer concerns regarding the stability of the Stock Market, the Bond Market, and large banks; consequently, businesses and consumers elected to place more deposits in community banks during the last few years.

<b>Table 3</b>		
<b>Net Loan-to-Deposit Ratio Comparison</b>		
Institution	Average LTD ratio* (%)	Asset Size** \$(000)
Central Co-operative Bank	129.79	525,512
Wainwright Bank	113.18	1,025,192
Boston Private Bank and Trust	101.16	3,448,880
East Boston Savings Bank	82.92	1,764,452
East Cambridge Savings Bank	81.70	830,970
Cambridge Savings Bank	76.94	2,182,549
Watertown Savings Bank	62.88	1,041,088
<b><i>Cambridge Trust Company</i></b>	<b><i>59.04</i></b>	<b><i>1,090,611</i></b>

\*3/31/08-12/31/10

\*\*as of December 31, 2010

## Assessment Area Concentration

The Bank's performance under this criterion is considered satisfactory as a majority (61.9 percent) of its home mortgage and small business loans were originated within the assessment area. As depicted in Table 4, the Bank originated a total of 398 residential mortgage loans and 356 small business loans totaling \$204.9 million during the evaluation period.

<b>Table 4 - Distribution of Loans Inside and Outside of Assessment Area</b>										
Loan Category or Type	Number Loans					Dollar Volume ('000s)				
	Inside		Outside		Total	Inside		Outside		Total
	#	%	#	%		\$	%	\$	%	
2008 Home Mortgage	123	71.1	50	28.9	173	30,907	63.4	17,813	36.6	48,720
2009 Home Mortgage	173	72.1	67	27.9	240	64,834	73.3	23,663	26.7	88,497
2010 Home Mortgage	102	71.0	42	29.0	144	48,013	72.8	17,946	27.2	65,959
<b>Subtotal</b>	<b>398</b>	<b>71.5</b>	<b>159</b>	<b>28.5</b>	<b>557</b>	<b>143,754</b>	<b>70.8</b>	<b>59,422</b>	<b>29.2</b>	<b>203,176</b>
2008 Small Business	114	57.3	85	42.7	199	20,628	51.8	19,174	48.2	39,803
2009 Small Business	125	59.2	86	40.8	211	21,444	54.8	17,697	45.2	39,141
2010 Small Business	117	46.4	135	53.6	252	19,088	42.4	25,879	57.6	44,967
<b>Subtotal</b>	<b>356</b>	<b>53.8</b>	<b>306</b>	<b>46.2</b>	<b>662</b>	<b>61,160</b>	<b>49.4</b>	<b>62,750</b>	<b>50.6</b>	<b>123,911</b>
<b>Grand Total</b>	<b>754</b>	<b>61.9</b>	<b>465</b>	<b>38.1</b>	<b>1,219</b>	<b>204,914</b>	<b>62.6</b>	<b>122,172</b>	<b>37.4</b>	<b>327,086</b>

Source: Small Business Bank Records; HMDA LARs 2008, 2009, and 2010 through September 30.

### Home Mortgage Lending

As reflected in Table 4, 71.5 percent of home mortgage loans were originated in the assessment area. Of the 123 loans originated in 2008, 82, or 67.0 percent, were for home purchase loans while 39, or 32.0 percent, were refinance transactions. By number of originations, the Bank ranked 20<sup>th</sup> (along with 3 other institutions) out of 337 institutions that originated at least 1 home mortgage loan in the assessment area, translating to a market share of 1.3 percent. In terms of total dollar amount, the Bank maintained a market share of 0.6 percent.

In 2009, overall lending increased; consequently, the Bank reported 173 home mortgage loans totaling \$64.8 million, representing 72.1 percent, by number, and 73.3 percent, by dollar amount, respectively. Closer review of the loans indicated that 87, or 50.0 percent, were refinances and 80, or 46.0 percent, were home purchase loans. In 2009, the Bank ranked 27<sup>th</sup> out of 361 lenders (by number of loans), with a market share of 1.0 percent. In terms of total dollar amount, the Bank maintained a market share of 1.0 percent.

The Bank's performance for the 9-month period ending September 30, 2010 is consistent with the 2 prior year's performance, indicating an increasing trend in the number of home mortgage originations

### Small Business Lending

As depicted in Table 4, 53.8 percent of small business loans were originated within the assessment area. In 2008, the Bank originated 114 small business loans totaling \$20.6 million inside its assessment area, representing 57.3 percent, by number, and 51.8 percent, by dollar amount. In 2009, the Bank originated 125 small business loans totaling \$21.4 million within its assessment area, representing 59.2 percent, by number, and 54.8 percent, by dollar volume; a

slight increase in both categories from the prior year. Data for the first 9 months of 2010 indicates that the Bank's lending performance inside the assessment area has decreased as a percentage of total lending.

## Geographic Distribution

The geographic distribution of loans was reviewed to assess the Bank's performance in addressing credit needs throughout its assessment area. The focus of this analysis is to assess the Bank's home mortgage and small business loan distribution in its assessment area, with emphasis placed on lending in low- and moderate-income Census tracts.

Overall, the geographic distribution of home mortgage and small business lending reflects reasonable dispersion throughout the Bank's assessment area, particularly in low- and moderate-income Census tracts, during the evaluation period.

## Home Mortgage Lending

Table 5 compares the distribution of home mortgage loans by income category of the census tract for 2008 and 2009 to aggregate market data and the percentage of owner-occupied housing within each Census tract category in the Bank's assessment area.

<b>Table 5 – Number Distribution of Home Mortgage Loans by Income Category of the Census Tract</b>									
<b>Census Tract Income Level</b>	<b>% of Total Owner-Occupied Housing Units</b>	<b>2008 Aggregate Lending Data</b>		<b>2008 Bank Lending Data</b>		<b>2009 Aggregate Lending Data</b>		<b>2009 Bank Lending Data</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	<b>0.5</b>	<b>125</b>	<b>0.9</b>	<b>2</b>	<b>1.6</b>	<b>161</b>	<b>0.6</b>	<b>1</b>	<b>0.6</b>
<b>Moderate</b>	<b>10.6</b>	<b>1,858</b>	<b>13.7</b>	<b>34</b>	<b>27.6</b>	<b>2,840</b>	<b>11.3</b>	<b>26</b>	<b>15.0</b>
<b>Middle</b>	<b>33.7</b>	<b>4,980</b>	<b>36.6</b>	<b>49</b>	<b>39.8</b>	<b>9,136</b>	<b>36.3</b>	<b>69</b>	<b>39.9</b>
<b>Upper</b>	<b>55.2</b>	<b>6,625</b>	<b>48.8</b>	<b>38</b>	<b>31.0</b>	<b>13,039</b>	<b>51.8</b>	<b>77</b>	<b>44.5</b>
<b>Total</b>	<b>100.0</b>	<b>13,588</b>	<b>100.0</b>	<b>123</b>	<b>100.0</b>	<b>25,176</b>	<b>100.0</b>	<b>173</b>	<b>100.0</b>

*Source: U.S. Census (2000), HMDA LAR 2008 and 2009, and Home Mortgage Aggregate Data 2008 and 2009.*

In 2008, the Bank originated 2 home mortgage loans, or 1.6 percent, in the low-income Census tracts, exceeding the 2008 aggregate market data at 0.9 percent, and the percentage of owner-occupied housing units in low-income Census tracts at 0.5 percent. The 2009 performance in low-income Census tracts mirrored that of the aggregate at 0.6 percent, and slightly exceeded the percentage of owner-occupied housing units at 0.5 percent.

A review of the 2008 aggregate market share report indicates that the Bank ranked 7<sup>th</sup> out of 42 lenders reporting home mortgage loan originations, by number, in the low-income Census tracts in the Bank's assessment area. This ranking represents a market share of 2.2 percent. In 2009 the Bank ranked 9<sup>th</sup> out of 41 lenders reporting home mortgage loan originations in the low-income Census tracts, representing a market share of 0.9 percent. Although this represents a slight decrease in market share, the Bank's level of lending within the 3 low-income Census tracts remained in line with aggregate data.

Within the moderate-income Census tracts, the Bank's 2008 performance at 27.6 percent exceeded aggregate at 13.7 percent. In 2009, the Bank's performance at 15.0 percent again exceeded the aggregate performance at 11.3 percent. Performance in both years also exceeded the percentage of owner-occupied housing units at 10.6 percent.

A review of the 2008 aggregate market share report indicates that the Bank ranked 9<sup>th</sup> out of 164 lenders reporting home mortgage loan originations, by number, in the moderate-income Census tracts in the assessment area. This ranking represents a market share of 2.5 percent. In 2009, the Bank ranked 20<sup>th</sup> out of 177 lenders, representing a market share of 1.3 percent.

Further analysis was conducted to determine if the Bank originated at least 1 home mortgage loan in each Census tract of its assessment area, with emphasis on the low- and moderate-income tracts. In 2008, at least 1 home mortgage loan was originated in 2 out of the 3 low-income Census tracts, and at least 1 loan was originated in 9 of the 18 moderate-income Census tracts in the assessment area. In 2009, at least 1 home mortgage loan was originated in 1 of the 3 low-income Census tracts, and at least 1 loan was originated in 10 of 18 moderate-income Census tracts. Overall, there were 1 low-income and 6 moderate-income Census tracts in the Bank's assessment area where there were no home mortgage loans originated in 2008 or 2009. Demographic data for these 7 tracts revealed there were only 2,783 owner occupied housing units, indicating a very limited supply of housing. In addition, 14.5 percent of total households in the tracts were living below the poverty level.

Additional analysis was conducted on home mortgage loans originated through September 30, 2010, revealing a similar trend as in 2008 and 2009. Therefore, the Bank continued to service home mortgage lending needs in low- and moderate-income Census tracts.

### ***Small Business Lending***

Overall, the Bank demonstrated a reasonable distribution of small business loans throughout its assessment area. Table 6 depicts the distribution of small business loans by income category of the Census tract.

<b>Table 6 – Distribution of Small Business Loans by Income Category of the Census Tract</b>								
<b>Census Tract Income Level</b>	<b>2008 Businesses</b>		<b>2008 Bank Lending Data</b>		<b>2009 Businesses</b>		<b>2009 Bank Lending Data</b>	
	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	<b>1,270</b>	<b>3.2</b>	<b>4</b>	<b>3.5</b>	<b>1,313</b>	<b>3.1</b>	<b>9</b>	<b>7.2</b>
<b>Moderate</b>	<b>5,733</b>	<b>14.5</b>	<b>22</b>	<b>19.3</b>	<b>6,130</b>	<b>14.5</b>	<b>28</b>	<b>22.4</b>
<b>Middle</b>	12,821	32.3	37	32.5	13,686	32.3	39	31.2
<b>Upper</b>	19,783	50.0	51	44.7	21,237	50.1	49	39.2
<b>Total*</b>	<b>39,607</b>	<b>100.0</b>	<b>114</b>	<b>100.0</b>	<b>42,366</b>	<b>100.0</b>	<b>125</b>	<b>100.0</b>

*Source: 2008 and 2009 D&B data; 2008 and 2009 Small business Bank records.*

As Table 6 indicates, the Bank originated 4 small business loans, or 3.5 percent, in the low-income Census tracts in 2008. For comparison purposes, the Bank's performance was slightly higher than the percentage of businesses located in low-income tracts at 3.2 percent. In 2008, the Bank originated 22 loans, or 19.3 percent, in moderate-income Census tracts, which also exceeded the percentage of businesses located in moderate-income Census tracts at 14.5 percent. In 2009, the Bank originated 9 small business loans, or 7.2 percent, in the low-income Census tracts, which was more than double the percentage of small businesses located in low-income Census tracts at 3.1 percent. Also in 2009, the Bank originated 28 loans, or 22.4 percent, in moderate-income Census tracts, which is higher than the percentage of commercial businesses located in the moderate-income Census tracts at 14.5 percent.

Additional analysis was conducted on originated small business loans through September 30, 2010, indicating a performance similar to 2008 and 2009.

### **Borrower Profile**

The distribution of loans, predicated on borrower income and small business revenue, was reviewed to determine the extent to which the Bank addressed the credit needs of its mortgage borrowers and small business customers within its assessment area during the review period. The distribution of borrowers reflected, given the demographics of the assessment area, reasonable penetration among individuals of different income levels (including low- and moderate- income) and business customers of different sizes.

### ***Home Mortgage Lending***

Home mortgage lending data was reviewed to assess how well the Bank met the housing credit needs of its assessment area residents. More weight was placed on the Bank's record of lending to low- and moderate-income borrowers. As depicted in Table 7, the Bank's performance, relative to the distribution of borrowers, reflected an excellent penetration in its assessment area of loans among individuals of different income levels, given the product lines offered by the Bank.



<b>Table 7 - Distribution of Home Mortgage Loans by Borrower Income</b>									
<b>Borrower Income Level</b>	<b>Family Distribution by Income Level</b>	<b>2008 Aggregate Lending Data</b>		<b>2008 Bank Lending Data</b>		<b>2009 Aggregate Lending Data</b>		<b>2009 Bank Lending Data</b>	
		<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>	<b>#</b>	<b>%</b>
<b>Low</b>	<b>1.6</b>	<b>385</b>	<b>2.8</b>	<b>26</b>	<b>21.1</b>	<b>738</b>	<b>2.9</b>	<b>13</b>	<b>7.5</b>
<b>Moderate</b>	<b>16.9</b>	<b>1,357</b>	<b>10.0</b>	<b>20</b>	<b>16.3</b>	<b>2,827</b>	<b>11.2</b>	<b>28</b>	<b>16.2</b>
<b>Middle</b>	<b>34.5</b>	2,609	19.2	20	16.3	5,414	21.5	36	20.8
<b>Upper</b>	<b>47.0</b>	6,809	50.1	52	42.3	12,989	51.6	89	51.5
<b>N/A</b>	<b>0</b>	2,428	17.9	5	4.0	3,208	12.7	7	4.0
<b>Total</b>	<b>100.0</b>	<b>13,588</b>	<b>100.0</b>	<b>123</b>	<b>100.0</b>	<b>25,176</b>	<b>100.0</b>	<b>173</b>	<b>100.0</b>

*Source: 2000 U.S. Census Data; 2008 and 2009 HMDA LARs; Home Mortgage Aggregate Data 2008 and 2009.*

In 2008, the Bank originated 26 home mortgage loans, or 21.1 percent, by number, to low-income borrowers, which significantly exceeded the aggregate market data of 2.8 percent. In 2009, the Bank originated 13 home mortgage loans, or 7.5 percent, by number, to low-income borrowers, again exceeding the aggregate market at 2.9 percent. In both years, the Bank's penetration of loans to low-income borrowers exceeded the percentage of low-income families at 1.6 percent. The Bank's penetration of lending to moderate-income borrowers reflected percentages just below the percentage of moderate-income families, but reflected reasonable performance.

A review of the 2008 aggregate market share report indicates the Bank ranked 2<sup>nd</sup> out of 71 lenders, with a market share of 7.6 percent, in originations to low-income borrowers in the Bank's assessment area. In 2009, the Bank ranked 12<sup>th</sup> out of 104 lenders reporting home mortgage loan originations, by number, to low-income borrowers in the Bank's assessment area. The Bank's rank represents a market share of 2.0 percent.

A review of the 2009 aggregate market share report indicates that the Bank ranked 13<sup>th</sup> out of 150 lenders, with a market share of 1.8 percent, in originations to moderate-income borrowers. In 2009 the Bank ranked 21<sup>st</sup> out of 174 lenders reporting home mortgage loans, by number, to moderate-income borrower in the Bank's assessment area. The Bank's market share was 1.3 percent.

Through September 30, 2010, the Bank's home mortgage numbers did not indicate any significant change in originating home mortgages to low- and moderate-income borrowers

### ***Small Business Lending***

Table 8 shows the distribution of small business loans by gross annual revenue (GAR) category. The Bank demonstrated reasonable penetration of loans to businesses of different revenue sizes, indicating that the financial institution performed well in serving the credit needs of smaller businesses in the assessment area in 2008 and 2009.

<b>Table 8 – Distribution of Small Business Loans by Gross Annual Revenue Category (GAR)</b>								
<b>Gross Annual Revenues (000s)</b>	<b>2008 Commercial Businesses</b>		<b>2008 Bank Lending Data</b>		<b>2009 Commercial Businesses</b>		<b>2009 Bank Lending Data</b>	
	#	%	#	%	#	%	#	%
<b>≤ \$1,000</b>	<b>26,251</b>	<b>66.2</b>	<b>49</b>	<b>43.0</b>	<b>31,617</b>	<b>74.6</b>	<b>59</b>	<b>47.2</b>
<b>&gt; \$1,000</b>	2,335	6.0	65	57.0	2,339	5.5	65	52.0
<b>Revenues N/A</b>	11,021	27.8	0	0	8,410	20.0	1	.8
<b>Total</b>	<b>39,607</b>	<b>100.0</b>	<b>114</b>	<b>100.0</b>	<b>42,366</b>	<b>100.0</b>	<b>125</b>	<b>100.0</b>

*Source: 2008 and 2009 D&B data; 2008 and 2009 small business Bank records*

As depicted in Table 8, in 2008, the Bank originated 49 small business loans, or 43.0 percent by number, to businesses in its assessment area with GARs of \$1 million or less. The Bank's performance, however, was below the percentage of 2008 commercial businesses with GARs of \$1 million or less at 66.2 percent.

In 2009, the Bank originated 59 small business loans, or 47.2 percent, by number, with GARs of \$1 million or less. The Bank was below the percentage of 2009 commercial businesses with GARs of \$1 million or less, at 74.6 percent.

The Bank's small business lending performance was also analyzed by loan size. This analysis is based on the premise that smaller businesses and start-ups typically have a need for small dollar loans. Table 9 indicates that the Bank did a reasonable job of granting smaller dollar business loans.

<b>Table 9 – Distribution of Small Business Loans by Loan Size</b>				
<b>Loan Size (000s)</b>	<b>2008 Bank Lending Data</b>		<b>2009 Bank Lending Data</b>	
	#	%	#	%
<b>≤ \$100</b>	61	53.5	81	64.8
<b>&gt; \$100 ≤ \$250</b>	29	25.4	16	12.8
<b>&gt; \$250 ≤ \$1,000</b>	24	21.1	28	22.4
<b>Total</b>	<b>114</b>	<b>100.0</b>	<b>125</b>	<b>100.0</b>

*Source: 2008 and 2009 Bank small business lending records*

As illustrated in Table 9, the majority of small business loans originated within the assessment area (53.5 percent) in 2008 were originated in amounts of \$100,000 or less. A total of 78.9 percent were in amounts of less than \$250,000.

In 2009, the Bank originated 64.8 percent of the small business loans in its assessment area in amounts of \$100,000 or less, and a total of 77.6 percent less than \$250,000.

The Bank continued to lend small dollar loans in 2010 (through September 30) in a similar fashion.

### **Response to CRA Complaints**

A review of FDIC records, as well as the Public File maintained by the Bank pursuant to CRA regulations, disclosed no complaints. The Bank maintains procedures to handle complaints if necessary to respond accordingly.

## **COMMUNITY DEVELOPMENT TEST**

The Community Development Test evaluates the Bank's responsiveness to the community development needs of its assessment area through the provision of community development loans, qualified investments, and community development services as appropriate, considering the institution's capacity and the need and availability of such opportunities for community development in the institution's assessment area. The Bank's community development performance demonstrates an adequate responsiveness to the community development needs of its assessment area.

### **Community Development Loans**

As defined in the CRA regulation, a community development loan has as its primary purpose: (1) affordable housing for low- and moderate-income individuals (2) community services targeted to low- and moderate-income individuals; (3) activities that promote economic development by financing small businesses or small farms; (4) or activities that revitalize or stabilize low- and moderate-income geographies. During the evaluation period, bank management chose to focus its community development activities in providing community development loans.

The level of the Bank's community development lending demonstrates adequate responsiveness to the credit needs in its assessment area. The Bank financed 27 qualified, community development loans since the previous examination, totaling \$11.6 million. During the previous evaluation, the Bank made \$10.7 million in community development loans in its assessment area. The Bank's ability to continue making community development loans, despite the economic climate and competition in the assessment area during the evaluation period, reflects well on its performance in meeting credit needs within the assessment area.

In 2008, the Bank originated 11 community development loans for a total of \$7.3 million. This included loans for affordable housing, such as a \$2.7 million construction loan for a 24-unit affordable housing project in Cambridge. Another notable community development origination was a \$1.5 million working capital loan to a clinic which primarily services low- and moderate-income families.

In 2009, 9 community development loans were originated for a total of \$3.2 million. Notable community development loans this year included a \$400,000 line of credit for working capital to a family and children services agency, and the financing of a \$177,000 acquisition and renovation project with a community action agency for a 16-unit property for low- and moderate-income tenants.

In 2010, 7 community development loans were originated for a total of \$1.1 million. Among the 2010 portfolio is a \$363,735 extension of the line of credit for the construction of the 24-unit affordable housing property. Also, the Bank extended a \$175,000 line of credit for a charter school which primarily serves low- and moderate-income students.

A total of 3 other affordable housing projects were financed by the Bank during the examination period. While these were secured by 1-4 family residential properties, and were not technically qualified as community development loans since they were considered under the Lending Test, the primary purpose of these loans was community development.

### **Community Development Investments**

A qualified investment for purposes of this CRA evaluation is a lawful investment, deposit, donation, membership share, or grant that has community development as its primary purpose. The evaluation considered (1) investment and grant activity, (2) the responsiveness to credit and community development needs, and (3) community development initiatives.

Based upon the Bank's primary community development focus, its capacity to invest, and the opportunities available within the assessment area, the Bank made an adequate level of qualified investments and exhibited adequate responsiveness to credit and community economic development needs.

### ***Traditional Investments***

The Bank's current, qualified equity investments, totaling \$684,937, increased since the previous CRA evaluation dated January 11, 2008, at which time such investments totaled \$637,470. The increase in investments is primarily attributable to an increase in the book value of the Access Capital investment. Equity investments account for 0.2 percent of total investments.

The current qualified equity investments were made prior to January 11, 2008, the date of the last CRA evaluation. Specifically, there are three qualified equity investments, two of which are mortgage-backed securities issued through the Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC), with an original book value of \$213,000, and a current book value of \$12,787.15.

The remaining investment was made in April 2003 for a \$500,000 share in the Access Capital Strategies Community Investment Fund; the current book value of this investment is \$672,149. This fund purchases a wide variety of qualified community development securities collateralized by home mortgages, affordable rental housing, commercial real estate, and small business loans.

## *Donations*

For the period under review the Bank made charitable contributions totaling \$799,729, of which, \$428,655 or 53.6 percent, were considered CRA qualified. The following table classifies the Bank's qualified contributions by year, amount, and purpose of the contribution.

<b>Community Development Grants &amp; Donations</b>								
<b>Community Development Category</b>	<b>2008</b>		<b>2009</b>		<b>2010</b>		<b>Total</b>	
	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>	<b>#</b>	<b>\$</b>
Affordable Housing for Low- and Moderate-Income	4	7,125	4	2,550	5	18,250	13	27,925
Community Services Targeted to Low- and Moderate-Income	92	130,850	101	121,815	97	129,065	290	381,730
Promote Economic Development	2	2,000	1	1,000	1	1,000	4	4,000
Revitalize Low- and Moderate-Income Areas	1	5,000	1	5,000	1	5,000	3	15,000
<b>Total</b>	<b>99</b>	<b>144,975</b>	<b>107</b>	<b>130,365</b>	<b>104</b>	<b>153,315</b>	<b>310</b>	<b>428,655</b>

In 2008, the Bank granted \$144,975 in qualified contributions, of which \$130,365 accounted for 1.0 percent of pre-tax net operating income. In 2009, the Bank's donations represented 0.9 percent of pre-tax net operating income. Qualified contributions for year-to-date 2010 totaled \$153,315, representing 0.7 percent of pre-tax net operating income, as of September 30, 2010..

The following items include examples of the organizations that benefited from the Bank's contributions:

### Cambridge Housing Assistance Fund (CHAF)

CHAF is a citywide coalition of businesses, financial institutions, and community leaders who are dedicated to improving the overall quality of life for homeless individuals. Since its inception in 1999, CHAF has helped over 1400 homeless or near-homeless families with their transition to permanent housing by providing rental assistance. The donations made by the Bank have been targeted toward CHAF's affordable housing initiatives.

### Cascap, Inc.

Cascap, Inc., formerly "Cambridge and Somerville Cooperative Apartment Project," is dedicated to improving lives of those who are stricken by poverty, disability, or age, through the development and provision of affordable housing and other services. The Bank made annual donations to this non-profit organization throughout the period reviewed.

### Breakthrough Cambridge

Breakthrough Cambridge (formerly Summerbridge) is the only tuition-free academic program in Cambridge. A six-year program specifically targeting low income students, Breakthrough Cambridge utilizes unique teaching models in a student-centric environment, with a three-to-one student-to-teacher ratio. The Bank made annual donations to their educational program.

### Just-A-Start Corporation (JAS)

JAS, established in 1971, is a non-profit community development corporation, which operates primarily in Cambridge. JAS focuses on three major program activities for the benefit of low- and moderate-income individuals: the stabilization of occupied housing, education/training/placement, and the development and operation of affordable housing.

### Somerville Homeless Coalition

The mission of the Somerville Homeless Coalition is to provide homeless and near homeless individuals and families with support services and tailored housing solutions with a goal of obtaining and maintaining affordable housing. The Bank made annual donations to the organization.

### Initiative for a Competitive Inner City (ICIC)

ICIC's mission is to drive economic prosperity in America's inner cities through private sector investment to create jobs, income and wealth for local residents. Founded in Cambridge and located in Boston, ICIC performs research as well as educational seminars on behalf of small inner-city businesses to spur economic growth. The Bank made annual donations to the organization.

## **Community Development Services**

A community development service has community development as its primary purpose and is generally related to the provision of financial services or technical services or assistance. The Bank provided a good level of community development services during the review period.

### ***Educational Programs***

The Bank devoted time and resources to area organizations and took a leadership role in running programs that provide financial education to non-profit entities and area youth and adults. The following items are a few examples of the Bank's educational programs.

#### The Carey Program

In 2008, 2009 and 2010, members of the Bank's CRA Committee conducted "Banking and Credit Services" seminars, based on the Money Smart curriculum, to participants of the Carey Program. The Carey Program is a transitional housing program for previously homeless men, and the Bank's participation is a key component of participants' transition into mainstream society. Money Smart modules addressed in these seminars included: "Bank on It," "Borrowing Basics," "Check it Out," and "To Your Credit." In addition to presenting individual modules, CRA committee members hold one-on-one credit counseling meetings with each participant. Approximately 25 members of the Carey Program participate in each educational seminar, with about 4 seminars held per year.

#### Lincoln Council on Aging and Beacon Hill Village

In 2009 and 2010, the Bank held two seminars for the benefit of the elderly, especially those on fixed incomes. The seminars conducted focused on Internet safety. Topics covered included banking online, protecting digital information, and preventing exposure to email scams or Web fraud.

#### Other Seminars

- A financial literacy seminar was conducted by the Bank in 2009 in concert with Cambridge Works. Cambridge Works is a program designed to build the skills of unemployed, low-income residents.

- A Branch manager who speaks Mandarin and Taiwanese, and a Business Banking officer offered a financial literacy seminar to 15 adult ESL students at the Cambridge Learning Center in 2009.
- In 2010, two members of the Bank's CRA committee participated in a semi-annual seminar to recent immigrants on starting and growing one's business.

### ***Employee Services***

The Bank's staff demonstrated its commitment to the assessment area by volunteering their time and financial expertise to community-oriented organizations and programs that promote economic development opportunities for small businesses. The following items provide a sampling of the Bank's participation with various organizations that benefited the community during the evaluation period.

#### Boys and Girls Clubs of Middlesex County

The Boys and Girls Club of Middlesex County serve the needs of children in Cambridge, Somerville, Medford and Everett. The mission of the Boys & Girls Club is to enable all young people, to reach their full potential as productive, caring, responsible citizens. The majority of the participants are from low-income families. An Assistant Vice President served on the Board of Directors and the Finance Committee.

#### Cambridge Chamber of Commerce Carl F. Barron Scholarships

This organization awards a scholarship (low-income is one of the primary selection criteria) to a graduating Cambridge Rindge and Latin senior. A retired Senior Vice President and current advisor to Cambridge Trust Company served as a Trustee and on the Selection Committee providing financial expertise.

#### Cambridge Community Foundation (CCF)

This foundation, as of 2010, has an endowment of over \$24 million, which is used to provide grants to hundreds of organizations that primarily serve low- and moderate-income individuals. Between 2009 and 2010, CCF awarded grants to organizations that provide services such as early childhood development; youth, senior, community, and emergency outreach; and arts and environmental support. CCF acts as a catalyst for effective investment in the Cambridge Community. The President and a Vice President of Cambridge Trust Company served as Trustees of this foundation.

#### Cambridge Housing Assistance Fund

As previously mentioned, CHAF is a citywide coalition of businesses, financial institutions, and community leaders who are dedicated to improving the overall quality of life for homeless individuals. Since its inception in 1999, CHAF helped over 1,400 homeless or near-homeless families with transition to permanent housing by providing rental assistance. The President of the Bank served as the Chairman of the Board in 2010.

#### Homeowners Rehab, Inc. (HRI)

Since 1972, HRI developed over 1,500 units of affordable housing, a significant majority of which is specifically for low- and moderate-income families in Cambridge. The organization also owns 950 rental units and 40,000 square feet of commercial space in Cambridge. A Senior Vice President of the Bank serves on the Board and as a financial advisor to this organization.

### Work, Community and Independence

This organization supports and empowers individuals with disabilities to achieve self-sufficiency in home, work, and community environments. A total of 98.5 percent of individuals supported by this organization are of low- or moderate-income. An Assistant Treasurer of the Bank served on the Development and Executive Committees.

### Other Programs

The Bank participated in the following public and privately sponsored programs having special features that are of particular benefit to lower-income consumers.

- During the review period, the Bank participated in the FDIC Small Dollar Loan Work Group. A pilot program offered as an alternative to payday loans and overdraft protection fees, as a means of establishing a relationship with low-income members of the community. Additionally, during its participation in this group, the Bank conducted an assessment of its personal unsecured loan and Credit Reserve Overdraft Line of Credit products and concluded that they are similar options that provide affordable and accessible small-dollar credit. There is no minimum loan amount, and no fees are attached to these vehicles.
- The Bank participated in a First Time Homebuyer program offered in cooperation with the Massachusetts Housing Partnership Fund, the Commonwealth of Massachusetts, and the City of Cambridge. The Cambridge Trust First Time Home Buyers program is for first time home buyers who have income within certain limits and would otherwise have difficulty qualifying for a mortgage. This program is limited to owner-occupied, 1-3 family houses and condominiums in Cambridge, Massachusetts.
- The Bank participated in the Massachusetts Community and Banking Council's (MCBC) Basic Banking in Massachusetts program. This statewide program is designed to offer low cost checking and savings accounts to low- and moderate-income individuals.



## APPENDIX A

### Fair Lending Policies and Practices – Massachusetts Division of Banks

Based upon the review of the Bank's public comment file and its performance relative to fair lending policies and practices, no violations of the anti-discrimination laws and regulations were identified. Since the previous examination, the Bank received no complaints pertaining to the Bank's CRA performance since the previous examination.

Currently, the Bank has 209 full time equivalent employees. Languages spoken at the Bank by employees include, Albanian, Armenian, Cantonese, Haitian Creole, French, German, Greek, Hindi, Italian, Kannada, Kashmiri, Laotian, Mandarin, Portuguese, Russian, Spanish, Tagalog, Taiwanese, Tulu, and Urdu.

The Bank's loan policy prohibits discrimination against all the prohibited classes listed under the Equal Credit Opportunity Act (ECOA) and the Fair Housing Act (FHA). Also included in the Bank's loan policy are procedures for the second review process of denied loan applications.

#### MINORITY APPLICATION FLOW

A review of residential loan applications was conducted in order to determine the number of HMDA-reportable credit applications the Bank received from minority applicants. During this period, 76 applications, or 19.6 percent were received from racial minorities, 34 of which were originated.

MINORITY APPLICATION FLOW								
RACE	2008 Bank Data		2009 Aggregate Data		2009 Bank Data		Bank TOTAL	
	#	%	#	%	#	%	#	%
<i>American Indian/ Alaska Native</i>	0	0.0	27	0.1	0	0.0	0	0.0
<i>Asian</i>	24	14.8	2,409	7.6	11	5.0	35	9.2
<i>Black/ African American</i>	14	8.6	230	0.7	6	2.7	20	5.2
<i>Hawaiian/Pac Isl.</i>	0	0.0	31	0.1	0	0.0	0	0.0
<i>2 or more Minority</i>	1	0.6	14	0.0	0	0.0	1	0.3
<i>Joint Race (White/Minority)</i>	7	4.3	620	2.0	13	6.0	20	5.2
<b>Total Minority</b>	<b>46</b>	<b>28.3</b>	<b>3,331</b>	<b>10.5</b>	<b>30</b>	<b>13.7</b>	<b>76</b>	<b>19.9</b>
<i>White</i>	110	68.0	19,636	62.0	173	79.0	283	74.3
<i>Race Not Available</i>	6	3.7	8,723	27.5	16	7.3	22	5.8
<b>Total</b>	<b>162</b>	<b>100.0</b>	<b>31,690</b>	<b>100.0</b>	<b>219</b>	<b>100.0</b>	<b>381</b>	<b>100.0</b>
<b>ETHNICITY</b>								
<i>Hispanic or Latino</i>	5	3.1	331	1.0	5	2.3	10	2.6
<i>Joint (Hisp/Lat /Not Hisp/Lat)</i>	1	0.6	252	0.8	1	0.5	2	0.5
<i>Not Hispanic or Latino</i>	148	91.4	22,360	70.6	195	89.0	343	90.1
<i>Ethnicity Not Available</i>	8	4.9	8,747	27.6	18	8.2	26	6.8
<b>Total</b>	<b>162</b>	<b>100.0</b>	<b>31,690</b>	<b>100.0</b>	<b>219</b>	<b>100.0</b>	<b>381</b>	<b>100.0</b>

Source: US Census, HMDA LAR, HMDA Aggregate Data

The Bank's minority application flow for this period was compared with the racial and ethnic composition of the assessment area and the 2009 aggregate data for all other HMDA reporters within the assessment area. The comparison of this data assists in deriving reasonable expectations for the rate of applications the Bank received from minority residential loan applicants.

According to 2000 Census Data, the Bank's assessment area contained a total population of 387,236, of which 18.9 percent are minorities, the assessment area's minority and ethnic population is 4.6 percent Black, 7.6 percent Asian/Pacific Islander, 0.1 percent American Indian, 4.0 percent Hispanic, and 2.6 percent were defined as "other race." The Census minority demographic of 18.9 is in line with the 19.9 percent minority application flow for the period under review.

In 2009, the minority application flow exhibited a decrease to 13.7 percent, compared to 28.3 percent in 2008. However, the Bank's level of minority applications is above the 2009 aggregate level. The ethnic composition of applications in 2009 also exceeds the 2009 aggregate, 2.8 and 1.8 percent, respectively. This also represents a decrease in the proportion of ethnic applications, down from 3.7 percent in 2008.

## **APPENDIX B GENERAL DEFINITIONS**

### **GEOGRAPHY TERMS**

**Block:** Small areas bounded on all sides by visible features such as streets, roads, streams or rail road tracks, and invisible features like city or town boundaries or property lines. Blocks are subdivisions of census tracts or block numbering areas (BNA), and are assigned a unique three-digit number.

**Block Group:** Clusters of blocks within a census tract or BNA, having a four-digit number and a three-digit suffix. The four-digit number corresponds to the same number given to the census tract or BNA in which it is located.

**Block Numbering Areas (BNAs):** Statistical subdivisions of a county for grouping and numbering blocks in non-metropolitan counties where local census statistical area committees have not established census tracts. BNAs do not cross county lines.

**Census Tract:** Small subdivisions of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. They usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

**Metropolitan Area (MA):** One or more large population centers and adjacent communities that have a high degree of economic and social integration. Each MA must contain either a place with a minimum population of 50,000 of Census Bureau-defined urbanized area and a total MA population of at least 100,000 (75,000 in New England). An MA comprises one or more central counties and may include one or more outlying counties that have close economic and social relationships with the central county. In New England, MAs are composed of cities and towns rather than whole counties.

**Metropolitan Statistical Area (MSA):** One or more metropolitan areas that have economic and social ties.

**Primary Metropolitan Statistical Area (PMSA):** A large urbanized county or cluster of counties that demonstrate very strong internal economic and social links, in addition to close ties to other portions of the larger area. If an area qualifies as an MA and has more than one million persons, PMSAs may be defined within it.

**Consolidated Metropolitan Statistical Area (CMSA):** The larger area of which PMSAs are component parts.

**Non-Metropolitan Area:** All areas outside of metropolitan areas. The definition of non-metropolitan area is not consistent with the definition of rural areas. Urban and rural classifications cut across the other hierarchies; for example, there is generally both urban and rural territory within both metropolitan and non-metropolitan areas.

**Urban Area:** All territories, populations, and housing units in urbanized areas and in places of 2,500 or more persons outside urbanized areas. More specifically, “urban” consists of territory, persons, and housing units in: places of 2,500 or more persons incorporated as cities, villages, boroughs (except in Alaska and New York), and towns (except in the New England states, New York, and Wisconsin) but excluding the rural portions of “extended cities”; census designated place of 2,500 or more persons; and other territory, incorporated or unincorporated, including in urbanized areas.

**Rural Area:** Territories, populations and housing units that are not classified as urban.

## **HOUSING TERMS**

**Family:** Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include non-relatives living with the family. Families are classified by type as either a married-couple family or other family which is further classified into “male householder” (a family with a male householder and no wife present) or “female householder” (a family with a female householder and no husband present).

**Household:** Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

**Housing Unit:** Includes a house, an apartment, a mobile home, a group of rooms, or a single room that is occupied as separate living quarters.

**Owner-Occupied Units:** Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

## **INCOME TERMS**

**Median Income:** The median income divides the income distribution into two equal parts, one having incomes above the median and other having incomes below the median.

**Area Median Income:** The median family income for the MSA, if a person or geography is located in an MSA; or the statewide non-metropolitan median family income, if a person or geography is located outside an MSA.

**Family Income:** Includes the income of all members of a family that are age 15 and older.

**Household Income:** Includes the income of the householder and all other persons that are age 15 and older in the household, whether related to the householder or not. Because many households consist of only one person, median household income is usually less than median family income.

**Low-Income:** Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent in the case of a geography.

**Moderate-Income:** Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 and less than 80 percent in the case of a geography.

**Middle-Income:** Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 and less than 120 percent in the case of a geography.

**Upper-Income:** Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent in the case of a geography.

**HUD Adjusted Income Data:** The U.S. Department of Housing and Urban Development (HUD) issues annual estimates which update median family income from the metropolitan and non-metropolitan areas. HUD starts with the most recent U.S. Census data and factors in information from other sources to arrive at an annual estimate that more closely reflects current economic conditions.

## **OTHER TERMS**

**Home Mortgage Disclosure Loan Application Register (HMDA LAR):** The HMDA LARs record all applications received for residential purchase, refinance, home improvement and temporary-to-permanent construction loans.

**Small Business Loan:** A loan included in “loans to small businesses” as defined in the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and are either secured by nonfarm nonresidential properties or are classified as commercial and industrial loans.

**Small Farm Loan:** A loan included in “loans to small farms” as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, including farm residential and other improvements, or are classified as loans to finance agricultural production and other loans to farmers.

## **APPENDIX C**

### **INVESTMENT DEFINITIONS**

**Community Development Corporation (CDC):** A CDC allows Banks and holding companies to make equity type of investments in community development projects. The equity investments are subject to limits specified by the Bank's regulator. Bank CDCs can develop innovative debt instruments or provide near-equity investments tailored to the development needs of the community as well as to the financial and marketing needs of the Bank. A CDC may purchase, own, rehabilitate, construct, manage and sell real property. Also, it may make equity or debt investments in development projects and in local businesses. The CDC activities are expected to directly benefit low- and moderate-income groups, and the investment dollars should not represent an undue risk on the Banking organization. Any real estate ownership should generally be temporary, with ownership reverting to members or organizations in the community.

**Community Development Financial Institutions (CDFIs):** CDFIs are private intermediaries (either for profit or nonprofit) with community development as their primary mission. They procure loans and investments that conventional financial institutions are unable to invest in, and they link financing to other developmental activities. A CDFI facilitates the flow of lending and investment capital into distressed communities and to individuals who have been unable to take advantage of the services offered by traditional financial institutions. CDFIs share a common mission and can be chartered as a credit union or Bank. CDFIs can also be unregulated nonprofit institutions that gather private capital from a range of social investors for community development lending or investing. Some basic types of CDFIs include community development Banks, community development loan funds, community development credit unions, microenterprise funds, and community development venture capital funds. A certified CDFI must meet eligibility requirements, which include: having a primary mission of promoting community development; serving an investment area or target population; providing development services; maintaining accountability to residents of its investment area or targeted population through representation on its governing board of directors, or by other means; and not constituting an agency or instrumentality of the United States, of any state or political subdivision of a state.

**Low Income Housing Tax Credits:** The Low-Income Housing Tax Credit Program is a housing program contained within the Internal Revenue Code of 1986, as amended, which is administered by the U.S. Department of the Treasury and the Internal Revenue Service. The U.S. Treasury Department, through the Internal Revenue Service, distributes low-income housing tax credits to housing credit agencies. The housing agencies allocate tax credits on a competitive basis. Developers who acquire, rehabilitate, or construct low-income rental housing may keep their tax credits or sell them to corporations or investor groups, who, as owners of these properties, will be able to reduce their own federal tax payments. The credit can be claimed annually for ten consecutive years. For a project to be eligible, the developer must set aside a specific percentage of units for occupancy by low-income residents. The set-aside requirement remains in place throughout the compliance period, usually 30 years.

**Qualified Investments:** A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development to support the following endeavors: 1) affordable housing; 2) community services targeting low- and moderate-income individuals; 3) activities that promote economic development by financing small farms and small businesses; and 4) activities that revitalize or stabilize low- and moderate-income geographies.

## **APPENDIX D**

### **STANDARD PE LANGUAGE**

#### **LENDING TEST**

##### **Scope of Test**

The lending test evaluates the institution's record of helping to meet the credit needs of its assessment area(s) by considering an institution's home mortgage, small business, small farm, and community development lending. The institution's lending performance is evaluated pursuant to the following criteria: 1) the volume of lending activity; 2) the proportion of lending within the assessment area(s); 3) the dispersion of loans and the number and amount of loans in low-, moderate-, middle- and upper-income geographies in the assessment area(s); 4) the distribution of loans among borrowers of low-, moderate-, middle- and upper-income levels and businesses (including farms) of different sizes; 5) the distribution of small business and small farm loans by loan amount at origination; 6) the volume of community development lending; and 7) the use of innovative or flexible lending practices. Performance under the lending test is weighted more heavily than the investment and service tests when arriving at an overall rating.

##### **Community Development Lending:**

###### **Performance Criteria**

The institution's community development lending activities are evaluated pursuant to the following criteria: 1) the extent to which community development lending opportunities have been made available to the institution; 2) the responsiveness of the institution's community development lending; and 3) the extent of leadership the institution has demonstrated in community development lending.

##### **Innovative and Flexible Lending Practices:**

###### **Performance Criteria**

The institution's innovative and flexible lending practices are evaluated pursuant to the following criteria: 1) the degree to which the loans serve low- and moderate-income creditworthy borrowers in new ways or serve groups of creditworthy borrowers not previously served by the institution; and 2) the success of each product serving low- and moderate-income borrowers, including the number and dollar volume of loans originated during the review period.

## **PERFORMANCE EVALUATION DISCLOSURE GUIDE**

Massachusetts General Laws Chapter 167, Section 14, as amended, and the Uniform Interagency Community Reinvestment Act (CRA) Guidelines for Disclosure of Written Evaluations, and Part 345 of the Federal Deposit Insurance Corporation's Rules and Regulations, require all financial institutions to take the following actions within 30 business days of receipt of the CRA evaluation of their institution:

- 1) Make its most current CRA performance evaluation available to the public;
- 2) At a minimum, place the evaluation in the institution's CRA public file located at the head office and at a designated office in each assessment area;
- 3) Add the following language to the institution's required CRA public notice that is posted in each depository facility:

"You may obtain the public section of our most recent CRA Performance Evaluation, which was prepared by the Massachusetts Division of Banks and the Federal Deposit Insurance Corporation, at 1336 Massachusetts Avenue, Cambridge, MA 02138."

- 4) Provide a copy of its current evaluation to the public, upon request. In connection with this, the institution is authorized to charge a fee which does not exceed the cost of reproduction and mailing (if applicable).

The format and content of the institution's evaluation, as prepared by its supervisory agencies, may not be altered or abridged in any manner. The institution is encouraged to include its response to the evaluation in its CRA public file.